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C O N F I D E N T I A L SECTION 01 OF 02 QUITO 000898

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SUBJECT: ECUADOR: GUTIERREZ GONE, NEXT STEPS

REF: QUITO 894

Classified By: Amb. Kristie A. Kenney for reasons 1.4 (b) and (d)

1. (C) Summary: Ex-president Lucio Gutierrez departed Ecuador for Brazil early on April 24, after being granted safe passage by the GOE. Reaction has been muted thus far, with no demonstrations reported on a sunny Sunday when most Quitenos were more occupied by soccer rather than politics. Gutierrez' departure is positive, and removes a potential complicating factor for the impending OAS delegation visit. We have begun coordination with the local OAS mission to ensure a successful visit. As the GOE continues to consolidate itself and signal differences with us on key issues, we seek to use early calls on President Palacio and his Cabinet to prevent any rash moves. End Summary.

Gutierrez in Brazil

2. (C) At 0300 local time on April 24, several official cars entered the Brazilian Embassy as a diversion; ex-President Gutierrez, his wife and younger daughter was spirited out the back of the residence to other vehicles. The former first family was taken to a nearby military base (Los Chillos) and then flown by helicopter to Latacunga, an hour south of Quito. There they boarded a waiting Brazilian AF plane, and took off for Brasilia at approximately 0600. It is still unclear whether Gutierrez formally resigned before leaving the country. More details may emerge out of Brazil in coming days.

Reaction Muted

3. (U) Word of Gutierrez' departure did not seep out until late-morning, and caused little reaction in the streets. No protests or demonstrations were reported, as most Quito residents took a day off from politics in favor of other pursuits. Foreign Minister Antonio Parra confirmed that the GOE had granted safe passage, citing its international obligations and denying ceding to any outside pressure.

OAS Visit Coordination

4. (C) Gutierrez' departure should help reduce uncertainty here, and help the GOE to consolidate its claim to power. The Ambassador spoke with OAS mission director Carlos Maria Ocampos on April 24 to offer Embassy support for the upcoming delegation visit. Ocampos said he expected the OAS delegation to arrive on April 27. The Ambassador will meet with Ocampos on April 25 to begin detailed planning for the visit.

Cabinet Moves

5. (C) Apart from initial press opportunities, President Palacio has not formally addressed the nation to lay out his government's plans. Initial Cabinet appointees, however, have been signaling significant shifts on some key issues of USG interest. Minister of Economy and Finance Rafael Correa has signaled the government's intention to divert some oil income from buying back government debt towards social spending. On April 24, he denied any plan to declare a moratorium on foreign debt payments. Thus far, there are few signs of capital flight, although many in the business sector are expressing concern privately. Government Minister Mauricio Gandara has publicly signaled that the GOE will not to sign an Article 98 agreement with us, and has publicly expressed his intention to review the existing CSL Manta agreement. He also stated that no decision has been taken on the issue.

6. (C) In an April 22 meeting with PolChief, Presidential Secretary Carlos Munoz Rosado welcomed a potential OAS visit.

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The GOE was waiting for the situation to calm down a bit before granting safe passage to Gutierrez. The first order of business had just been accomplished--the military and police leadership had been replaced, building internal GOE confidence. Munoz strenuously emphasized that the Palacio government is not against free trade or the United States. On trade, the GOE would seek to negotiate to "better protect

Ecuador" from any negative effects. Early Cabinet selections (nine men, no women, with seven of nine hailing from Guayaquil, like Palacio) consist of the President's inner circle, and were largely apolitical "technicos," he said. The rest of the cabinet would be similarly apolitical, but more representative of the entire country. Key issues such as budgetary priorities and any free trade agreement would be put to the people by referendum.

17. (C) At a meeting on April 21 (reported RefTel), Minister of Government Gandara claimed that few Cabinet members were connected to political parties. There had been and would be no deals with political parties, he said; instead, the government would use citizen pressure to get Congress to act on its initiatives, rather than swapping posts or bribes as in the past.

#### Comment and Next Steps

18. (C) Excellent Embassy relations with the new national police chief and close contact with the Brazilian embassy helped keep us informed about the situation in the run-up to Gutierrez' departure. Though muted today, public reaction to Gutierrez' departure could simply be delayed by good weather and political exhaustion. Regardless, it helped to reduce tensions and a quandary for the OAS delegation. Throughout the unsettled situation in the wake of Gutierrez' dismissal, the Brazilian Government has played a helpful role by providing asylum and lobbying the GOE for safe passage. We recommend the Secretary consider thanking the GOB privately for its assistance in her upcoming visit to Brasilia.

19. (C) The OAS visit will inevitably be viewed skeptically by the GOE and its more nationalist backers, and by the protest movement which brought them to power. We will coordinate closely with the OAS mission here to ensure security and a good round of meetings. To blunt local resistance to foreign oversight of the internal political situation, we recommend the OAS mission be encouraged to strike forward-looking themes, and deflect attention from recognition or judgment of the change in government per se. One possibility would include offering OAS technical assistance on the lingering issue of how to reconstruct Ecuador's defunct judiciary.

10. (C) In her initial meeting with President Palacio on April 25, the Ambassador will encourage him to use the OAS visit as an opportunity to show GOE receptiveness to the concerns of friendly nations. She will also use pending calls on the Foreign Minister and his cabinet colleagues (MinDef, MinGov, and the Economy and Trade ministers) to discourage rash actions.

KENNEY